

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

CHRISTINA STUTZ

NOVEMBER 14, 2011



DOCKET NO. 2011-271-E

**Application of Duke Energy Carolinas, LLC
for Authority to Adjust and Increase Its
Electric Rates and Charges**

DIRECT TESTIMONY OF CHRISTINA STUTZ

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2011-271-E

**IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC FOR
AUTHORITY TO ADJUST AND INCREASE ITS ELECTRIC RATES AND
CHARGES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
OCCUPATION.**

A. My name is Christina Stutz. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff (“ORS”) as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science degree with a major in Accounting from
the University of South Carolina in 2004. In April 2005, I began my employment
with ORS. I have performed several audits of water and wastewater, electric, and
telecommunications companies and have testified before this Commission.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
PROCEEDING?**

A. The purpose of my testimony is to set forth the findings and
recommendations resulting from ORS’s examination of the Application of Duke

Energy Carolinas, Inc. ("Duke" or "Company"). My testimony addresses the Company's adjustments 4 through 7 and 22 as filed in the Application on August 5, 2011.

Q. PLEASE EXPLAIN THE RELATED ORS ADJUSTMENTS.

A. Annualize O&M Non-labor Costs – ORS Adjustment #10 (Company Adjustment #4) - ORS does not propose to adjust O&M non-labor costs for inflation since any potential impact is neither known nor measurable. This type of adjustment has been disallowed by the Commission in prior cases.

Normalize O&M Labor Costs - ORS Adjustment #11 (Company Adjustment #5) -

The Company proposes to normalize labor costs by (\$10,494,000) based on updated salaries as of April 4, 2011. The adjustment also included updated fringe benefits and employee incentives. ORS reviewed payroll data and examined a sample of various employee wages. No exceptions were found in the Company's calculations. ORS proposes to remove half of all employee incentives, salaries of all officers not employed by Duke, and all officer pay increases, as discussed in the direct testimony of ORS witness Leigh Ford. ORS also proposes to update the fringe benefits factor after removing non-allowable expenses of \$1,605,696 from Account 926. The SC retail adjustment to salaries was a reduction to expenses of (\$21,510,000).

Annualize Operating Costs for Cliffside Unit 5 Scrubber – ORS Adjustment #12

(Company Adjustment #7) - The Company proposes to annualize the operating costs of the Cliffside Unit 5 flue gas desulfurization unit ("scrubber") by \$1,009,000 to include expenses for a full year. The Cliffside scrubber began

1 operations on October 12, 2010, and the test year includes approximately 2.65
2 months of operating expenses. ORS annualized operating costs, excluding 50%
3 of all incentives, using the most recent actual costs incurred by the Company from
4 January 1, 2011 through August 31, 2011. Average monthly costs were used from
5 September 1, 2011 through December 31, 2011. ORS's total adjustment was
6 \$2,289,000, and the SC retail adjustment was \$543,000.

7 Update for Increased Benefits Costs – ORS Adjustment #18 (Company
8 Adjustment 22) - The Company proposes to increase benefits by \$9,442,000 using
9 the 2011 actuarial studies for medical, pension, and other post employment
10 benefits ("OPEB"). The actuarial amounts were provided by an independent third
11 party. ORS reviewed the results of the study and verified the per book amounts.
12 ORS proposes to adjust the Wellness Program expenses by (\$1,519,760) to reflect
13 a change in providers. Additionally, the Company proposed an adjustment to
14 increase expenses by \$17,000,000 for the re-measurement of the long-term
15 disability program. After review of account information, ORS proposes to
16 include the average re-measurement over the most recent three years, which
17 amounts to an adjustment of \$8,079,000. The Company also included a return on
18 Duke Energy Business Services, LLC pension and OPEB assets allocated to
19 Duke. ORS included this return at the correct allocation factor of 46.71% to
20 reflect the amount that should be charged to Duke. Also, ORS updated the
21 proposed revenue requirement factor based on ORS's recommended Return on
22 Equity ("ROE") of 10.50%. The total benefits adjustment was \$26,944,000, and
23 the SC retail adjustment was \$6,484,000.

Amortize Deferral Balance Related to Cliffside Unit 5 Scrubber – ORS

Adjustment #21 (Company Adjustment #6) - The Company deferred certain costs related to the Cliffside Unit 5 flue gas scrubber as allowed by the Commission in Order No. 2011-80. The Order allowed the Company to "defer the incremental costs that are being, or will be, incurred from the date this asset was placed in service, and was used and useful in providing electric service to its South Carolina retail customers, to the date the Company is authorized to begin reflecting in rates the recovery of such costs on an on-going basis." The Company proposes an adjustment of \$7,476,000. ORS updated the scrubber incremental costs, using actual information provided by the Company, through August 31, 2011 and average costs for the months September 1, 2011 through January 31, 2012. The costs were comprised of depreciation expense, cost of capital, and incremental non-fuel related operation expenses. Non-allowable expenses and half of all incentives were removed from these costs. Total depreciation expense was \$26,327,546 and cost of capital of \$91,494,502 was computed using ORS's recommended ROE of 10.50%. Operating costs of \$4,089,790 from the in-service date of October 12, 2010 through January 31, 2012 were also included. ORS proposes to amortize the SC retail portion of deferred costs over five (5) years. The SC retail adjustment was \$5,784,000.

Normalize O & M Labor Costs – Payroll Taxes – ORS Adjustment #31
(Company Adjustment #5)

The Company proposes to adjust payroll taxes by (\$66,000) for employment taxes related to normalized labor costs. ORS made several adjustments to normalize

1 wages and updated the related payroll taxes. As a result of those updates, ORS
2 proposes a SC retail adjustment of (\$70,000).

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A. Yes.**